

## Affected by regulatory issues; maintain Hold

We maintain our Hold rating on Sun Pharma (SPIL) and maintain our TP of Rs490 based on 26x March'19E EPS of Rs18.7. SPIL's Q2FY18 results were in-line with our expectations. The performance was impacted by the pricing pressure in the US and impact of GST in the domestic market. The drug maker's revenue declined 20% YoY, margins narrowed 1,760bps to 20.7%, and net profit fell 60%. SPIL is facing supply constraints at its Halol facility. The management has guided for a single digit decline in revenue and EBITDA margin of 20-22% for H2FY18. Key upside risks to our assumption include higher revenues from the US market and key downside risk includes regulatory risks for its manufacturing facilities catering to the global markets.

- **Revenue declined 20% YoY:** SPIL's revenue declined 20% YoY to Rs66.50bn from Rs82.60bn due to a sharp decline in the US formulation business. The company's domestic business (34% of revenues) grew by 11% YoY to Rs22.21bn from Rs20.09bn due to re-stocking by trade after successful GST implementation. The US formulations business (30% of revenues) declined 47% YoY to Rs19.86bn from Rs37.14bn due to the absence of high margin generic Glivec and pricing pressure in the US' generic market. SPIL's formulation business in emerging markets (19% of revenues) grew 12% YoY. The company's RoW business (11% of revenues) grew by 35% YoY. We expect the domestic, emerging market and RoW businesses to drive future growth.
- **EBIDTA margin set to improve:** SPIL's EBIDTA margin declined by 1,760bps YoY to 20.7% from 38.3%, due to overall rise in costs. Its material cost grew by 590bps YoY to 28.2% from 22.3%, due to its unfavourable product mix and absence of high margin generic Gleevec in the US market. SPIL's other expenses grew by 630bps to 31.2% from 24.9% due to the decline in revenue. The company's personnel cost grew by 540bps to 19.9% from 14.5%. We expect SPIL's margins to improve due to re-stocking in the domestic market and new product launches in the US market.
- **Net profit declined 60% YoY:** SPIL's net profit before EO item declined 60% YoY to Rs10.02bn from Rs24.71bn due to a decline in margins and higher interest cost. The company's interest cost grew by 193%YoY to Rs1,574mn from Rs537mn. We expect SPIL's net profit to improve with higher revenues from domestic and US markets.
- **Recommendation and view:** We maintain our Hold rating on SPIL and maintain our TP to Rs490 based on 26x March'19 EPS of Rs18.7 and downside of 5.2% from the CMP. Key positive risks to our assumptions would be higher growth in the US market and key negative risk would be regulatory risks for its manufacturing facilities. We recommend a switch to Aurobindo or Cipla.

Y/E Mar (Rs mn) (Cons.)	Q2FY18	Q2FY17	YoY%	Q1FY18	QoQ%	Q2FY18E	% Var.
<b>Total Revenues</b>	<b>66,504</b>	<b>82,601</b>	<b>(19.5)</b>	<b>62,088</b>	<b>7.1</b>	<b>67,090</b>	<b>(0.9)</b>
Raw material cost	18,775	18,399	2.0	16,774	11.9	17,100	9.8
Employee cost	13,233	11,991	10.4	13,299	(0.5)	13,400	(1.2)
Other expenses	20,739	20,534	1.0	21,059	(1.5)	21,500	(3.5)
<b>EBIDTA</b>	<b>13,757</b>	<b>31,677</b>	<b>(56.6)</b>	<b>10,956</b>	<b>25.6</b>	<b>15,090</b>	<b>(8.8)</b>
EBIDTA margin (%)	20.7	38.3	-	17.6	-	22.5	-
Depreciation	3,587	3,038	18.1	3,466	3.5	3,500	2.5
Interest	1,574	537	193.1	1,094	43.9	1,150	36.9
Other income	2,548	1,194	113.4	1,520	67.6	1,950	30.7
PBT	11,144	29,296	(62.0)	7,916	40.8	12,390	(10.1)
Prov. For tax	1,114	4,417	(74.8)	1,618	(31.1)	2,600	(57.2)
<b>Adj. PAT</b>	<b>10,018</b>	<b>24,711</b>	<b>(59.5)</b>	<b>6,279</b>	<b>59.5</b>	<b>9,770</b>	<b>2.5</b>

Source: Company, Centrum Research Estimates; NA =Not Applicable

Y/E March (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Net profit	YoY (%)	DEPS Rs	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	2,74,334	70.6	78,667	28.7	47,774	(15.6)	19.9	21.6	22.1	39.9	20.5
FY16	2,84,870	3.8	81,584	28.6	63,436	32.8	26.4	21.6	17.7	32.5	24.8
FY17	3,15,785	10.9	1,00,893	31.9	78,463	23.7	32.7	22.5	18.5	22.4	16.8
FY18E	3,08,395	(2.3)	69,489	22.5	43,308	(44.8)	18.1	11.5	9.9	30.8	18.1
FY19E	3,07,558	(0.3)	72,578	23.6	44,919	3.7	18.7	11.2	9.9	29.7	17.4

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited.

**Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet**

Target Price	Rs490	Key Data	
CMP*	Rs517	Bloomberg Code	SUNP IN
Downside	5.2%	Curr Shares O/S (mn)	2,406.4
Previous Target	Rs490	Diluted Shares O/S(mn)	2,406.4
Previous Rating	Hold	Mkt Cap (Rsbn/USDbn)	1240.7/19.1
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	731/432.7
		5 Year H / L (Rs)	1200.8/336
SUNP IN	(4.3)	(20.9)	(24.9)
Nifty	1.4	9.1	27.4
		Daily Vol. (3M NSE Avg.)	5457352

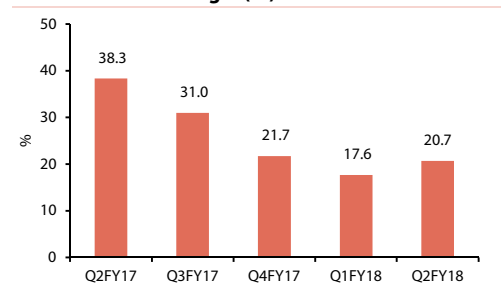
\*as on 17<sup>th</sup> November 2017 Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Sept-17	Jun-17	Mar-17	Dec-16
Promoter	54.4	54.4	54.4	54.4
FIs	18.2	19.7	21.3	21.8
DIs	13.8	12.8	12.2	12.2
Others	13.6	13.1	12.1	11.6

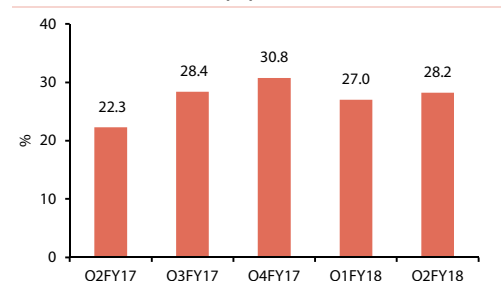
Source: BSE, \*as on 17<sup>th</sup> November 2017

### Trend in EBIDTA margin (%)\*



Source: Company, Centrum Research

### Trend in material cost (%)



Source: Centrum Research Estimates

### Centrum vs. Bloomberg Consensus\*

Particulars (Rs mn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	3,08,395	2,76,763	11.4	3,07,558	3,13,047	(1.8)
EBITDA	69,489	60,541	14.8	72,578	76,654	(5.3)
PAT	43,308	34,417	25.8	44,919	50,580	(11.2)

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
18	13	12	516	490	(5.0)

\*as on 17<sup>th</sup> November 2017, Source: Bloomberg, Centrum Research Estimates

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## Concall highlights

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### US –affected by pricing pressure

- The management indicated that the US formulation business (30% of revenues) declined by 47% YoY due to pricing pressure and the absence of the high-margin generic Glivec. The US business was impacted by pricing pressure due to the consolidation of channel partners.
- SPIL has built a specialty business for the US market.
- Taro's net profit in the US declined 58% YoY due to competitive pressure, new entrants in the market and a challenging pricing environment during the quarter.
- The company filed 4 ANDAs and received three approvals during Q2FY18. The management indicated oncology, ophthalmology, dermatology and CNS as focus areas in the US.
- SPIL has 422 approved ANDAs from US FDA, while 136 ANDAs are pending approval; hence, the company has a rich product pipeline for the US market. The company has 37 approved NDAs and 4 NDAs await US FDA approval.
- The management indicated site transfer of some critical products from Halol to other locations. The remedial measures for Halol facility have been completed and the management is expecting re-inspection.

### India – market leadership

- SPIL ranks as the no. 1 drug maker in the domestic market and has an 8.5% market share in the Rs1,140bn domestic pharma market. As per the management, the company ranked no.1 in 11 therapeutic categories.
- As per the management, the domestic business grew by 11% during the quarter due to re-stocking by trade on successful GST implementation. The management expects gradual recovery in the coming quarters.
- In the domestic market, SPIL launched 14 new products during the quarter.
- The management indicated setting up of a green field facility for injectables at Baska in Gujarat.

### Financials

- SPIL's R&D expenditure was Rs5.10bn during the quarter and amounted to 7.7% of revenues. The higher R&D expenditure was attributed to clinical development of global specialty pipeline.
- The API business grew 6% YoY due to higher captive consumption. This business has the benefit of vertical integration.
- The management indicated higher other income from IT return along with interest.
- The management has guided for single digit decline in consolidated revenues and indicated EBITDA margin of 20-22% and gradual increase in tax rate in H2FY18.

## Sales Composition

SPIL's Q2FY18 revenues declined by 20% to Rs66.50bn from Rs82.60bn a year ago, due to a sharp decline in US formulation revenues. SPIL's US business (30% of revenues) declined by 47% YoY from Rs19.86bn from Rs37.14bn due to the pricing pressure and absence of 180-days exclusivity of generic Gleevec in the US market. SPIL's domestic business (34% of revenues) grew by 11% YoY to Rs22.21bn from Rs20.09bn due to re-stocking by trade after successful GST implementation. Emerging markets formulation business (19% of revenues) grew 12% to Rs12.58bn from Rs11.26bn. The RoW formulation business (11% of revenues) grew 35% YoY to Rs7.11bn from Rs5.28bn due to the integration of the recently acquired Novartis 14 brands in Japan. SPIL's API business (6% of revenues) grew by 6% YoY to Rs3.88bn from Rs3.67bn due to higher captive consumption. Hence, the overall growth was led by the domestic, RoW and emerging market businesses.

The details are as follows:

### Exhibit 1: Sales composition-Q2FY18

PARTICULARS (Rs mn)	Q2FY18	Q2FY17	YoY%	Q1FY18	QoQ%	Q2FY18E	% Var.
<b>Sales break up</b>							
India Formulations	22,210	20,091	10.5	17,608	26.1	19,900	11.6
US Formulations	19,862	37,144	(46.5)	22,646	(12.3)	24,300	(18.3)
Emerging markets	12,582	11,262	11.7	10,804	16.5	11,600	8.5
ROW Formulations	7,113	5,281	34.7	7424	(4.2)	7,200	(1.2)
Total Formulations	61,767	73,778	(16.3)	58,482	5.6	63,000	(2.0)
Bulk	3,882	3,669	5.8	3089	25.7	3,500	10.9
Others	251	45	457.8	95	164.2	110	128.2
Total sales	65,900	77,492	(15.0)	61,666	6.9	66,610	(1.1)
Excise duty	0	0	NA	0	NA	0	NA
Other operating income	603	5109	(88.2)	421	43.2	480	25.6
Net sales	66,503	82,601	(19.5)	62,087	7.1	67,090	(0.9)

Source: Company, Centrum Research

## Performance of major brands

As per AIOCD AWACS September'17 data, SPIL grew at 2.1%, compared to the industry growth of 2.8%. SPIL's 45 products appear in the list of top 500 products. Of these, 17 products (38% of total) grew faster than the market growth rate of 2.8%. We expect these brands to drive future growth. Hence, SPIL has a rich product portfolio in the domestic market.

SPIL's top 45 brands contributed 41% to the company's domestic revenues and have a good brand image. Its antifungal brand Lulifin had the highest growth rate of 100.8%.

The following table presents the details.

### Exhibit 2: Performance of major brands

Products (Rs mn)	Therapeutic Category	July'17		August'17		September'17	
		Rs mn	Gr. Rate %	Rs mn	Gr. Rate %	Rs mn	Gr. Rate %
<b>Pharma Industry</b>		<b>92,795</b>	<b>(2.4)</b>	<b>1,03,167</b>	<b>2.4</b>	<b>1,04,196</b>	<b>2.8</b>
<b>Company</b>		<b>7,767</b>	<b>(3.1)</b>	<b>8,710</b>	<b>4.0</b>	<b>8,620</b>	<b>2.1</b>
Volini	NSAIDs	193	(9.6)	213	(3.6)	214	(9.0)
Rosuvas	cholesterol lowering	176	8.5	189	10.6	183	10.5
Gemer	Antidiabetic	168	3.1	165	(5.4)	161	(7.6)
Istamet	Antidiabetic	193	13.8	189	8.8	182	0.1
Susten	Gynaecological	116	(9.4)	135	5.9	130	6.0
Levipil	anti-epileptic	149	4.5	184	28.0	180	17.9
Pantocid	Antiulcerant	122	(6.4)	140	4.0	132	0.6
Storvas	cholesterol lowering	82	(5.1)	99	14.0	85	0.2
Pantocid-D	Antiulcerant	100	(7.5)	123	10.6	111	(3.0)
Aztor	Lipid Lowering	79	(4.5)	80	(7.5)	75	(11.2)
Revital H	multivitamin, Ginseng	83	(29.7)	98	(24.3)	98	(29.8)
Mox	Anti infective	77	(18.1)	102	6.3	94	18.8
Montek-LC	Anti-asthmatic	75	(1.9)	85	-	96	2.1
Moxclav	Anti infective	88	25.3	93	21.3	90	(2.2)
Rozavel	Lipid Lowering	75	(0.1)	80	0.6	80	0.5
Cepodem	Anti infective	61	(16.0)	71	(13.8)	76	(4.3)
Cardivas	CVS	65	(8.3)	64	(15.3)	62	(19.1)
Oxetol	Anticonvulsant	64	(1.0)	72	7.6	72	3.6
Glucored	Antidiabetic	60	(5.9)	56	(10.6)	54	(16.2)
Encorate Chrono	Anticonvulsant	47	(24.4)	49	(23.7)	49	(26.5)
Sporidex	Anti infective	53	(19.7)	75	(1.0)	77	(0.8)
Istavel	Antidiabetic	64	8.8	61	1.6	59	(2.0)
Rifagut	Anti-infective	70	1.0	78	11.8	74	11.2
Prolomet-XL	anti migraine	59	0.8	66	18.8	65	2.1
Ursocol	Hepatic protector	61	4.0	78	20.1	74	12.4
Volibo	Antidiabetic	45	(11.9)	47	(10.0)	44	(15.6)
Clopilet	Anti-coagulant	46	(35.7)	45	(44.1)	44	(38.6)
Cifran	Anti infective	40	(32.1)	56	(7.8)	53	1.7
Zanocin	Anti infective	46	(24.3)	54	(15.2)	50	(13.0)
AB Phylline	antiasthmatic	33	(8.2)	36	(6.9)	42	5.4
Histac	Antiulcerant	20	(58.9)	28	(42.3)	27	(35.8)
Sompraz-D	Anti-ulcerant	52	(1.7)	60	12.2	60	14.9
Mesacol	Anti-flatulant	51	18.1	59	15.7	50	7.2
Trivolib	Antidiabeti c	49	2.0	52	4.4	52	5.8
Strocit	Neurotonic	39	(5.5)	42	3.9	42	(7.4)
Metosartan	CVS	54	11.4	53	6.7	52	(2.5)
Silverex Ionic	skin Antiseptic	42	5.5	46	19.9	48	26.9
Olmezest	CVS	42	(2.2)	45	(3.5)	43	(7.8)
Nexito	Anticdepressant	32	(7.3)	41	18.3	40	13.9
Pantocid-L	antiulcerant	31	(11.0)	38	6.0	39	6.5
Mox-CV	Anti-infective	36	2.1	43	9.9	44	23.0
Volix	Antidiabetic	35	(5.4)	37	(1.8)	23	24.7
Teczine	antiallergic	54	38.9	57	31.6	59	38.3
Cepodem XP	Anti-infective	33	(10.3)	40	(1.2)	37	(3.6)
<b>Lulifin</b>		<b>84</b>	<b>389</b>	<b>92</b>	<b>187.5</b>	<b>90</b>	<b>100.8</b>
<b>Total</b>		<b>3,244</b>	<b>3.4</b>	<b>3,616</b>	<b>5.5</b>	<b>3,512</b>	<b>2.2</b>

Source: AIOCD AWACS monthly data-July-September'17

### Taro's performance impacted by challenging pricing environment

For Q2FY18, SPIL's US subsidiary, Taro Pharma's revenue declined 26% YoY to \$170mn from \$229mn, with slight increase in volume. The lower growth rate was due to competitive pressure and the challenging pricing environment. Gross profit declined 30% YoY to \$125mn from \$177mn. EBIDTA margin slipped by 960bps to 52.3% from 61.9%. Taro's net profit declined 58% YoY to \$52mn from \$124mn. Taro's effective tax rate was lower at 11.6% compared to 22.3%. We expect the pricing pressure to continue for another 3-4 quarters in the US.

Taro has 32 ANDAs pending approval with US FDA. The company contributes ~17% to the revenues, ~42% to EBIDTA and ~34% to SPIL's net profit.

The table below shows the details.

#### Exhibit 3: Taro Pharma-Q2FY18 results

PARTICULARS (\$ mn)	Q2FY18	Q1FY17	% YoY	FY17	FY16	% YoY
	SEPT.17	SEPT.16	CHANGE	MAR.17	MAR.16	CHANGE
Net sales	169.9	228.8	(25.7)	879.4	950.8	(7.5)
Cost of goods sold	44.8	51.4	(12.8)	207.9	169.7	22.5
Impairment	0	0	NA	0.3	2	(85.0)
Gross Profit	125.1	177.4	(29.5)	671.3	779.1	(13.8)
Gross Margin %	73.6	77.5		76.3	81.9	
Selling, general & admn. Exp	18.3	20.9	(12.4)	85.7	92.4	(7.3)
R & D expenses	18	14.9	20.8	70.6	71.2	(0.8)
Settlement & loss contingencies	0	0	NA		1	(100.0)
<b>Operating income/(loss)</b>	<b>88.8</b>	<b>141.6</b>	<b>(37.3)</b>	<b>515</b>	<b>614.5</b>	<b>(16.2)</b>
<b>EBIDTA margin %</b>	<b>52.3</b>	<b>61.9</b>		<b>58.6</b>	<b>64.6</b>	
Interest expenses	(4.6)	(3.5)	31.4	(14.5)	(12.6)	15.1
Other Income	(1.3)	1.1	(218.2)	11.2	2.7	314.8
Foreign exchange exp./income	32.6	(13.4)	(343.3)	(20.1)	(7.1)	183.1
<b>Profit/ (loss) before tax</b>	<b>59.5</b>	<b>159.6</b>	<b>(62.7)</b>	<b>560.8</b>	<b>636.9</b>	<b>(11.9)</b>
Tax provision	6.9	35.6	(80.6)	103.8	95.3	8.9
Profit/ (loss) before EO item	52.6	124	(57.6)	457	541.6	(15.6)
Income (loss) from discount. Oper.	(0.1)	0	NA	(0.3)	(0.2)	50.0
Profit (loss) after EO items	52.5	124	(57.7)	456.7	541.4	(15.6)
Net inc. attributable to non-cont. int	0	0.2	NA	0.3	0.4	(25.0)
Net profit	52.5	123.8	(57.6)	456.4	541	(15.6)
EPS fully diluted \$	1.3	3	(56.7)	11.1	12.6	(12.4)
No. of shares(fully diluted)	40.5	41.3	(1.9)	41.3	42.8	(3.5)

Source: Company, Centrum Research

#### Recommendation and view

At the CMP of Rs517, SPIL trades at 30.8x FY18E EPS of Rs18.1 and 29.7x FY19E EPS of Rs18.7. We maintain our Hold rating on SPIL and maintain the TP of Rs490 based on 26x March'19 EPS of Rs18.7 and a downside of 5.2% from the CMP. Based on Q2FY18 results and muted guidance given by the management for FY18, we have maintained our estimates. We expect SPIL's revenues and profitability to improve due to achieving \$200mn (Rs13.0bn) synergies from the Ranbaxy integration. SPIL is facing pricing pressure and absence of significant new launches in the US generic market as its major facility at Halol is under US FDA scanner. SPIL stock has corrected sharply in the last two quarters due to US FDA issues and muted performance of Taro Pharma. Key positive risks to our assumptions would be higher growth in the US market and key negative risk would be regulatory risks for its manufacturing facilities. We recommend a switch to Aurobindo or Cipla.

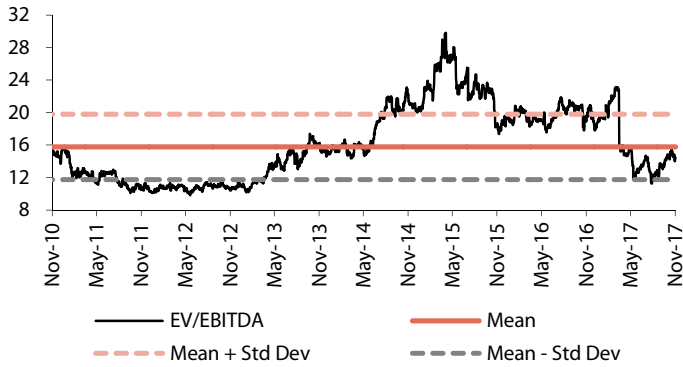
## Valuation and key risks

### Exhibit 4: Sensitivity Analysis

Sensitivity to key variables – FY17E	% change	% impact on EBITDA	% impact on EPS
Sales	1	4.4	7.1
Material cost	1	(1.2)	(2.0)

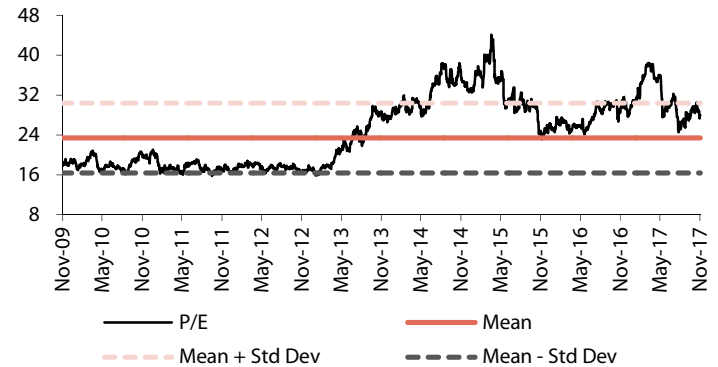
Source: Company, Centrum Research Estimates

### Exhibit 5: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 6: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 7: Comparative Valuations

Sector	Mkt Cap (Rs mn)	CAGR FY17-FY19E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Sun Pharma	12,40,283	(1.3)	(15.2)	(24.3)	31.9	22.5	23.6	22.4	30.8	29.7	16.8	18.1	17.4	22.5	11.5	11.2	0.6	0.9	1.0
Cipla	4,89,941	12.3	26.6	50.4	16.9	19.2	21.1	42.9	25.3	19.2	19.0	15.1	11.9	8.6	13.3	15.5	0.4	0.5	0.6
Dr. Reddy's Labs	3,85,153	7.5	15.9	23.1	17.4	18.6	20.3	39.5	26.8	20.9	22.7	16.1	13.6	10.4	12.0	14.0	0.8	1.2	1.4
Lupin	3,74,745	8.0	1.1	(2.4)	25.7	22.5	22.5	26.8	23.2	21.0	16.8	13.9	12.4	20.7	15.2	14.7	0.6	0.9	1.0

Source: Company, Centrum Research Estimates Prices as on 17<sup>th</sup> November 2017

## Quarterly financials, Operating Metrics and Key Performance Indicators

### Exhibit 8: Quarterly Financials -consolidated

PARTICULARS (Rs mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
<b>P &amp; L</b>								
Revenues	71,223	76,543	82,563	82,601	79,251	71,370	62,088	66,504
Material cost	17,328	14,086	18,470	18,399	22,487	21,951	16,774	18,775
Personnel cexpenses	11,377	11,870	12,393	11,991	12,151	12,488	13,299	13,233
Other Expenses	20,062	27,868	22,490	20,534	20,082	21,455	21,059	20,739
Total Expenses	48,767	53,824	53,353	50,924	54,720	55,894	51,132	52,747
EBIDTA	22,456	22,719	29,210	31,677	24,531	15,476	10,956	13,757
Other income	1,729	2,060	1,571	1,194	1,222	2,245	1,520	2,548
PBDIT	24,185	24,779	30,781	32,871	25,753	17,721	12,476	16,305
Interest	1,276	1,030	1,346	537	1,665	450	1,094	1,574
Depreciation	2,509	2,880	3,160	3,038	3,068	3,382	3,466	3,587
Profit before tax	20,400	20,869	26,275	29,296	21,020	13,889	7,916	11,144
Tax provision	888	4,176	3,527	4,417	3,729	443	1,618	1,114
Net profit before minority	19,512	16,693	22,748	24,879	17,291	13,446	6,298	10,030
Share of profit of ass./minority	4,064	(65)	(71)	(168)	(72)	411	(19)	(12)
Net profit before EO items	15,448	16,628	22,677	24,711	17,219	13,857	6,279	10,018
EO items	-	-	-	-	-	-	9,505	-
Net profit after EO items	15,448	16,628	22,677	24,711	17,219	13,857	(3,226)	10,018
<b>Growth (%)</b>								
Revenues	2.7	25.2	22.1	20.2	11.3	(6.8)	(24.8)	(19.5)
EBIDTA	3.7	185.8	65.2	69.1	9.2	(31.9)	(62.5)	(56.6)
Net profit before EO items	290.7	87.0	82.7	140.2	11.5	(16.7)	(72.3)	(59.5)
<b>Margin (%)</b>								
EBIDTA	31.5	29.7	35.4	38.3	31.0	21.7	17.6	20.7
Profit before tax	28.6	27.3	31.8	35.5	26.5	19.5	12.7	16.8
Net margin before EO	21.7	21.7	27.5	29.9	21.7	19.4	10.1	15.1

Source: Company, Centrum Research

### Exhibit 9: Key performance indicators

Key performance indicator	FY15	FY16	FY17	FY18E	FY19E
Domestic-Sales Growth %	81.9	6.4	8.4	6.0	5.0
US-sales growth %	40.2	(3.8)	(0.5)	(10.0)	(10.0)
RoW-sales growth %	165.7	(7.3)	19.5	9.0	8.0
Material cost %	24.6	22.2	25.7	27.8	25.9

Source: Centrum Research Estimates



## Financials -consolidated

### Exhibit 10: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Revenues</b>	<b>2,74,334</b>	<b>2,84,870</b>	<b>3,15,785</b>	<b>3,08,395</b>	<b>3,07,558</b>
Material cost	67,392	63,303	81,308	85,866	79,600
% of revenues	24.6	22.2	25.7	27.8	25.9
Employee cost	44,299	47,723	49,023	58,300	55,980
% of revenues	16.1	16.8	15.5	18.9	18.2
Other Expenses	83,977	92,260	84,561	94,740	99,400
% of revenues	30.6	32.4	26.8	30.7	32.3
<b>EBIDTA</b>	<b>78,667</b>	<b>81,584</b>	<b>1,00,893</b>	<b>69,489</b>	<b>72,578</b>
EBIDTA margin (%)	28.7	28.6	31.9	22.5	23.6
Depreciation & Amortisation	11,947	10,375	12,647	13,980	15,220
EBIT	66,719	71,209	88,246	55,509	57,358
Interest Expenses	5,789	5,232	3,998	4,220	4,470
PBT from operations	60,930	65,977	84,248	51,289	52,888
Other income	5,479	6,582	6,232	6,669	7,231
PBT	66,409	72,559	90,480	57,958	60,119
Tax provision	9,146	9,138	12,116	14,750	15,320
Effective tax rate (%)	13.8	12.6	13.4	25.4	25.5
Net profit	57,263	63,421	78,364	43,208	44,799
Minority interest	9,489	(15)	(99)	(100)	(120)
Reported net profit	47,774	63,436	78,463	43,308	44,919
<b>Adj. Net profit</b>	<b>47,774</b>	<b>63,436</b>	<b>78,463</b>	<b>43,308</b>	<b>44,919</b>

Source: Company, Centrum Research Estimates

### Exhibit 11: Key Ratios

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Growth Ratios (%)</b>					
Revenues	70.6	3.8	10.9	(2.3)	(0.3)
EBIDTA	12.4	3.7	23.7	(31.1)	4.4
Adj. Net Profit	(15.6)	32.8	23.7	(44.8)	3.7
<b>Margin Ratios (%)</b>					
EBIDTA margin	28.7	28.6	31.9	22.5	23.6
PBT from operations margin	22.2	23.2	26.7	16.6	17.2
Adj. PAT margin	17.4	22.3	24.8	14.0	14.6
<b>Return Ratios (%)</b>					
RoCE	22.1	17.7	18.5	9.9	9.9
RoE	21.6	21.6	22.5	11.5	11.2
RoIC	30.5	23.7	25.3	12.9	12.4
<b>Turnover ratios (days)</b>					
Gross Block Turnover (x)	2.3	1.6	1.5	1.3	1.1
Debtors	71	87	83	78	84
Creditors	42	46	51	41	47
Inventory	75	82	79	75	80
Cash Conversion Cycle	104	123	111	111	117
<b>Solvency Ratio</b>					
Debt-Equity	0.3	0.3	0.2	0.2	0.1
Net Debt-Equity	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Current Ratio	2.3	3.2	3.0	2.9	2.8
Interest Coverage Ratio	0.1	0.1	0.0	0.1	0.1
Gross Debt/EBIDTA	1.0	1.0	0.8	1.0	0.8
<b>Per Share (Rs)</b>					
FDEPS (adjusted)	19.9	26.4	32.7	18.1	18.7
CEPS	24.9	30.8	38.0	23.9	25.1
Book Value	137.5	154.0	168.5	177.1	191.1
Dividend	3.5	4.0	3.5	4.0	4.5
Dividend Payout (%)	18.2	18.2	12.8	26.6	28.8
<b>Valuations (x) (Avg Mkt Cap)</b>					
PER	39.9	32.5	22.4	30.8	29.7
P/BV	5.8	5.6	4.3	3.1	2.9
EV/EBIDTA	20.5	24.8	16.8	18.1	17.4
Dividend Yield (%)	0.5	0.6	0.6	0.9	1.0
5-yr Avg AOCF/EV yield(%)	2.1	2.2	3.5	5.1	5.4

Source: Company, Centrum Research Estimates

### Exhibit 12: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Share capital	2,071	2,407	2,399	2,399	2,399
Reserves & surplus	2,54,310	3,27,418	3,63,997	3,83,556	4,16,620
Total shareholders Funds	2,56,381	3,29,825	3,66,396	3,85,955	4,19,019
Total Debt	75,963	83,164	80,910	69,575	61,575
Minority interest	28,512	40,853	37,909	38,900	39,500
Deferred tax Liab.	(17,516)	(30,462)	(21,780)	(22,990)	(23,950)
<b>Total Liabilities</b>	<b>3,43,340</b>	<b>4,23,380</b>	<b>4,63,436</b>	<b>4,71,440</b>	<b>4,96,145</b>
Gross Block	1,52,505	1,95,390	2,29,299	2,58,863	2,97,328
Less: Acc. Depreciation	76,294	83,297	95,113	1,08,063	1,22,063
Net Block	76,211	1,12,093	1,34,186	1,50,800	1,75,265
Capital WIP	15,314	12,035	15,648	16,300	17,100
<b>Net Fixed Assets</b>	<b>91,525</b>	<b>1,24,128</b>	<b>1,49,834</b>	<b>1,67,100</b>	<b>1,92,365</b>
Investments	27,164	18,300	11,488	13,040	14,743
Inventory	56,680	64,225	68,328	63,250	67,700
Debtors	53,123	67,757	72,026	65,900	70,800
Loans & Advances	48,738	11,789	10,889	11,600	12,500
Cash & Bank Balance	1,09,980	1,31,816	1,51,408	1,42,956	1,34,152
Other assets	28,883	49,450	69,839	71,500	75,600
<b>Total Current Assets</b>	<b>2,97,404</b>	<b>3,25,037</b>	<b>3,72,490</b>	<b>3,55,206</b>	<b>3,60,752</b>
Trade payable	31,538	35,829	43,954	35,000	40,000
Other current Liabilities	29,517	15,910	29,514	30,420	31,460
Provisions	67,387	48,693	52,270	55,285	57,555
<b>Net Current Assets</b>	<b>1,68,962</b>	<b>2,24,605</b>	<b>2,46,752</b>	<b>2,34,501</b>	<b>2,31,737</b>
<b>Total Assets</b>	<b>3,43,340</b>	<b>4,23,380</b>	<b>4,63,436</b>	<b>4,71,440</b>	<b>4,96,145</b>

Source: Company, Centrum Research Estimates

### Exhibit 13: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
CF before WC changes	54,362	65,038	99,793	56,079	59,181
Working Capital Changes	1,796	2,656	(2,555)	3,799	(6,041)
<b>CF from Operations</b>	<b>56,157</b>	<b>67,694</b>	<b>97,238</b>	<b>59,878</b>	<b>53,140</b>
Adj OCF (OCF-Interest)	59,379	69,803	97,238	59,878	53,140
Change in fixed assets	(22,997)	(33,119)	(37,522)	(30,216)	(39,265)
Adj. FCF (AOCF-Capex)	36,382	36,685	59,716	29,662	13,875
<b>CF from Investing</b>	<b>(15,024)</b>	<b>(40,110)</b>	<b>(29,725)</b>	<b>(33,206)</b>	<b>(41,468)</b>
<b>CF from Financing</b>	<b>(11,865)</b>	<b>(19,243)</b>	<b>(15,282)</b>	<b>(21,859)</b>	<b>(20,355)</b>
<b>Net change in Cash</b>	<b>29,269</b>	<b>8,341</b>	<b>52,232</b>	<b>4,813</b>	<b>(8,682)</b>

Source: Company, Centrum Research Estimates



## Appendix A

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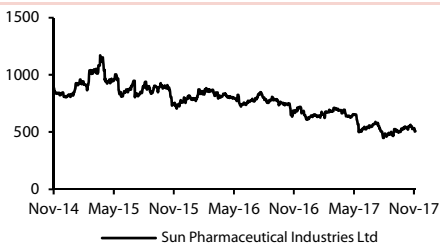
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### Sun Pharma price chart



Source: Bloomberg, Centrum Research

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